14 Devonshire Square, London EC2M 4YT
t 020 7655 6959 f 0845 094 9620
e enquiries@taxadvisorypartnership.com
w www.taxadvisorypartnership.com

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TAP Year End Tax Tips

With another filing deadline now behind us, it is time to turn our attention to identifying opportunities which can help reduce your tax exposure. Below are a reminder of recent or pending tax changes together with a few ideas on how the right tax planning at the right time can help mitigate your overall exposure in the 2016-17 tax year and beyond.

Personal Allowance Restriction

If your income is between £100,000 and £122,000, your personal allowance is restricted and potentially phased out in full. The effective tax rate for this income bracket is 60%. It is possible to reduce your exposure to this 60% tax rate by making pension contributions and charitable donations. For every £2 paid into a pension or donated to charity, £1 of UK personal allowance is reinstated.

To put this into context, a £120,000 earner could increase their pension pot by £20,000 at a cost of just £8,000 after all tax reliefs and the reinstatement of their personal allowance.

You may also wish to consider transferring income producing assets to your spouse/civil partner.

Annual Pension Allowance

The annual pension allowance is currently £40,000. It is also still possible to utilise any unused allowances from the tax years 2013-14 to 2015-16. The annual allowance was £50,000 in 2013-14, but decreased to £40,000 in 2014-15.

For those who pay tax at the UK's highest rate of tax, the cost of contributing £40,000 to your pension fund can be as low as £22,000 after tax relief.

From 6 April 2016, the allowance is reduced by £1 for every £2 of 'adjusted income' above £150,000, with a maximum reduction of £30,000. For those with taxable income over £210,000, the annual allowance will therefore be reduced to £10,000.

In view of this restriction it is important that tax payers ensure that their total contributions (which include both their own and employer contributions) do not exceed their available annual allowance. This will be particularly relevant for those individuals with significant employer contributions or who are part of a defined benefit scheme.

Pensions Flexibility

Since 6 April 2015, changes have been made to the way pensions from defined contribution schemes can be withdrawn. These changes should make it more flexible for those aged 55 or over to access their funds, without being subject to unauthorised payment charges of 55%. If you are considering drawing retirement benefit it is important you obtain professional advice in order to understand the options available to you and there implications.

Lifetime Allowance (LTA)

The maximum value of pension benefits an individual can benefit from (known as the LTA) without triggering a tax charge is currently £1 million, having been reduced from £1.25 million from 6 April 2016.

In some circumstances, it is possible to elect for Individual Protection 2014 to preserve your LTA at its value as at 5 April 2014, up to a maximum of £1.5 million. The election must be made by 5 April 2017.

There are also two protection regimes, Fixed Protection 2016 and Individual Protection 2016, introduced when the lifetime allowance reduced to £1million from 6 April 2016. There is currently no application deadline for these protections.

You should therefore take action if your pension benefits are approaching, or are above, the lifetime allowance.

Lifetime ISAs

From 6 April 2017, individuals aged between 18 and 39 will be able to invest in a Lifetime ISA, a tax-free savings or investment account invested in cash or stocks and shares, designed to help under-40s buy their first home or save for their retirement.

Similar to a personal pension scheme, for every £4 invested, the government will add £1, subject to an annual maximum investment of £4,000. This will form a part of the overall annual ISA limit for the 2017-18 tax year of £20,000.

Withdrawals are made tax-free but a penalty will be chargeable on anyone under 60 not using the cash to purchase a first property (subject to a limit of £450,000). There are no such restrictions for those over 60.

Non-UK Residence

Since 6 April 2013, an individual's UK residence has been determined by the 'statutory residence test', which is largely based on the amount of time an individual spends in the UK. You may wish to review your residency position to ensure it has not unintentionally changed.

If you are considering a move to or from the UK you could consider accelerating or deferring your overseas income so that they are received whilst you are still non-UK resident.

Capital Gains Tax for Non-Residents

Since 6 April 2015, non-residents have been liable to capital gains tax on the sale of UK residential property.

The application of these rules will result in growth in value after 5 April 2015 being subject to CGT when the property is sold. These rules are complex; they introduce a new reporting regime and prescribed provisions in respect of claiming 'Main Residence Relief'.

If these rules affect you and you would like further advice please contact us.

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Non-Domiciled Taxpayers

If you are a non-domiciled taxpayer living in the UK, certain tax residency milestones can impact your tax status.

- For those who have been resident in the UK for some part of at least 7 out of the previous 9 tax years, an annual charge will apply to claim the remittance basis in future years.

- At present, this charge is currently set at £30,000, rising to £60,000 if you have been UK tax resident in some part of at least 12 of the previous 14 tax years and rising further to £90,000 if you have been UK resident in some part of at least 17 of the previous 20 years.

- Longer term residents become "deemed domiciled" in the UK for inheritance tax purposes, and thereby liable to UK inheritance tax on worldwide assets. Currently, this applies to an individual who has been UK resident in some part of at least 17 out of the last 20 tax years.

"Non-Dom" Reform

From 6 April 2017, a non-domiciled individual who has been UK tax resident in at least 15 of the previous 20 UK tax years will be treated as domiciled in the UK for all UK tax purposes, and will no longer be able to make a claim to be taxed on the remittance basis. The £90,000 remittance basis charge will become defunct at that date. To compensate, two valuable transitional reliefs have been introduced:

I. All non-UK domiciled UK resident individuals (except returning non-doms) have a one–off opportunity to re-organise offshore mixed funds into their constituent parts. Allowing them to identify "clean capital" which can be remitted to the UK tax free;
II. Individuals becoming deemed domiciled on 6 April 2017 under the 15 out of 20 year rule will be able to benefit from rebasing of their foreign situated capital assets to their market value on 5 April 2017, for CGT purposes.

All non-domiciled individuals, whether they have been claiming the remittance basis or not, should review their affairs before the new rules come into force.

There may be planning opportunities, particularly for those approaching or affected by the above watersheds. We would be pleased to provide you with more detailed advice to help mitigate your UK tax exposure as appropriate.

Trust Planning

In some cases it can be beneficial for non-domiciled taxpayers to establish offshore trusts to hold assets prior to becoming deemed domiciled in the UK for estate tax purposes.

From a UK tax perspective, a key advantage of this structure is that the value of *non-UK situs assets* in the trust should be permanently sheltered from IHT, regardless of the future domicile or deemed domicile position.

This planning may also carry further benefits with regards income and capital gains tax from 6 April 2017 onwards.

If you would like further advice in this area please contact us.

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Remittance Basis Planning

If you are a non-domiciled long-term resident, the remittance basis charge (and increases to the charge over time) may make it advantageous to be taxed on the arising basis such that you pay tax on your worldwide income and gains.

Anyone contemplating a move from the remittance basis should consider whether remittances made prior to 6 April 2017 might attract lower marginal tax rate in the current tax year than if the same amount was remitted in a tax year when they are taxed on the arising basis.

Similarly, an individual faced with payment of the remittance basis charge may consider strategies to defer investments returns from the charge to UK tax.

Business Investment Relief (BIR)

BIR allows a taxpayer claiming the remittance basis to remit their offshore income and gains tax free if they make a qualifying investment/loan in the UK.

This is a useful planning tool and is particularly valuable if combined with an EIS/SEIS qualifying investment.

Foreign Capital Losses

Individuals claiming the remittance basis cannot offset foreign capital losses against gains taxable in the UK unless a specific election is made. The time limit for making a claim is four years following the end of the first tax year from 2008-09 onwards for which the remittance basis is claimed. Those who first claimed the remittance basis in 2012-13 will therefore have until 5 April 2017 to make the claim.

It is not always beneficial to make a foreign loss election and this will depend on your own personal circumstances. Once a loss election has been made there is a strict order of set-off against gains and therefore anyone who is considering making the election should contact us for further advice.

Tax allowances

The following table summarises the main tax allowances available, in most cases they are wasted if they are not used before the end of the tax year:

Type of relief	Allowance 2016/17	Relief
Pension Contribution	Up to £170,000*	20% to 60%*
ISA	£15,240	Tax Free Growth
Junior ISA	£4,080	Tax Free Growth
Capital Gains Tax Exemption	£11,100	Tax Free Gains
Venture Capital Trusts	£200,000	30%
Enterprise Investment Scheme	£1M	30%
Seed Enterprise Investment Scheme	£100,000	50% to 64%**
Business Investment Relief	Unlimited	20% to 64%***

* Dependent on availability of unused reliefs from earlier years, relief of 60% available when reducing income down from £122,000 to £100,000 and therefore re-instating your tax-free personal allowance

** Relief of 64% is obtained if you are entitled to a 50% capital gains tax exemption

*** Relief depends on whether BIR is combined with EIS/SEIS

The Classics

The following opportunities should always be considered toward the end of each tax year but are often overshadowed by "headline" changes. Nevertheless, these are key planning points that should not be disregarded when looking at your year-end tax position and in order to utilise the allowances available:

Tax Efficient Investments

- Enterprise Investment Schemes (EIS)
  Key benefits: 30% income tax reducer, capital gain tax exemption after 3 years, inheritance tax exemptions, capital gains tax deferral, carry back from 2016-17 to 2015-16.
- Seed Enterprise Investment Schemes (EIS)
  Key benefits: 50% income tax reducer, capital gain tax exemption after 3 years, inheritance tax exemptions, capital gains tax *exemption* on gains of up to 50% of the investment.
- Social Investment Tax Relief (SITR)
  Key benefits: 30% income tax reducer
- Venture Capital Trusts (VCT)
  Key benefits: 30% income tax reducer (if you are a subscriber and hold the shares for ≥5 years), capital gain tax exemption, tax-free dividends.
- Individual Savings Accounts (ISA)/Junior ISAs (JISA)
  Key benefits: Tax free growth and no capital gains tax on exit, can be a cash ISA or Stocks & Shares. JISAs have the same tax free benefits as an ISA and can be set up to save for children under the age of 18.

Capital Gains Tax (CGT)

- If you have assets which have increased in value you could make use of your CGT annual exemption and uplifted base costs. Rebasing could be achieved with shareholdings through 'Bed and Spouse' and 'Bed and SIPP', 'Bed & ISA' transactions. Please contact us for more information on these planning techniques.

Utilise Your Spouse's Tax Free Allowances, Exemptions & Lower Tax Bands

- You and your spouse/civil partner are entitled to the same tax free allowances and exemptions. You should consider if it is appropriate to transfer assets or hold them in joint names in order to reduce your tax liability next year.
- Inter-spouse transfers should also be considered for individual's claiming the remittance basis who wish to makes remittances during the tax year.

Timing of Dividend Payments

- If you are a company director/shareholder and can control or influence the timing of dividend and/or bonus payments then this should be reviewed before 5 April for any potential tax benefit.
- The new dividend allowance came into force this tax year (2016-17), allowing individuals to receive up to £5,000 of tax-free dividends. Spouses and civil partners should ensure that this has been utilised between them.

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Inheritance Tax (IHT) • Key benefits: Ensure you don’t waste your annual allowance of £3,000 and consider utilising the exemption for ‘gifts out of income’, which is often overlooked. In addition, unlimited small gifts of up to £250 can be made to any number of recipients each tax year.

If you would like to arrange a consultation to discuss your personal circumstances please contact us.

The Tax Advisory Partnership is a member firm of the Chartered Institute of Taxation (CIOT). We are not Financial Advisors and are not regulated by the Financial Conduct Authority (FCA). Where appropriate we will work with your Independent Financial Advisor or we can introduce you to one who we have worked with in the past who can take care of the FCA aspects of any advice you require. However, our focus is on ensuring that any investment strategy you may select meets with your overall financial and taxation objectives.